

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 CAB-09 CIAE-00 COME-00 DODE-00

DOT-00 INR-10 NSAE-00 RSC-01 FAA-00 SS-20 NSC-07 L-03

H-03 PA-04 PRS-01 USIA-15 IO-14 ACDA-19 SAJ-01 OMB-01

FEA-02 DRC-01 /148 W

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P R 241537Z APR 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 1968

INFO USMISSION BERLIN

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION NATO BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 06496

E. O. 11652: GDS

TAGS: ETRN, WB, GW, US, UK, FR

SUBJECT: CIVAIR - PAA REQUEST FOR BERLIN AIR SERVICE

FARE INCREASE

REF: A) BONN 5944, B) STATE 71654, C) STATE 82623

1. SUMMARY. DISCUSSION AMONG ALLIED CAA'S AND WITH CARRIERS HAS NOT BROUGHT TO LIGHT ANY ALTERNATIVE SOLUTION TO A FUEL SURCHARGE OR HIGHER FARES OTHER THAN AN INCREASE IN FRG SUBSIDIZATION OF THE IGS IN ONE FORM OR ANOTHER. POLITICALLY, WE BELIEVE, THE FRG (WHICH WE HAVE NOT, RPT NOT APPROACHED) WOULD FIND A FUEL SURCHARGE RATHER THAN SUBSIDIES MORE PALATABLE. THE BRITISH AND PAA CONTINUE TO PRESS US FOR PROMPT ACTION ON THEIR APPLICATION.

2. WE HAVE NOW HAD AN OPPORTUNITY TO DISCUSS POSSIBILITIES FOR COVERING INCREASED IGS FUEL COSTS WITH BRITISH CAA AND VISITING UK CIVIL AIR OFFICIAL GARDNER.
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WHILE THE BRITISH HAVE NOT YET CLEARED FINAL BRITISH

AIRWAYS (BA) PRESENTATION, BRITISH ARE PROPOSING A QUOTE FUEL SURCHARGE UNQUOTE OF 10.4 PERCENT WHICH WOULD HAVE AN IDENTICAL IMPACT TO PAA'S FARE INCREASE PROPOSAL. SURCHARGE APPROACH WOULD IN BRITISH VIEW IDENTIFY INCREASE AS DIRECTLY ATTRIBUTABLE TO RISING FUEL COSTS AND WOULD THUS HAVE A LESS NEGATIVE PUBLIC RELATIONS IMPACT THAN WOULD AN ACROSS-THE-BOARD FARE INCREASE. (LUFTHANSA HAS BEEN AUTHORIZED TWO INCREASES IN FRG DOMESTIC FARES, ONE OF 6 PERCENT IN JANUARY AND ONE OF 7 PERCENT ON APRIL 1, ON THE BASIS OF INCREASED FUEL COSTS.) EMBASSY WILL RECEIVE TODAY A BA PRESENTATION, AND WE WILL POUCH COPIES. THE CORE OF BA'S ARGUMENT (SUPPORTED BY THE UK GOVERNMENT) IS THAT FOR 1974 (AS REFLECTED IN THEIR DECEMBER FARE INCREASE PRESENTATION) THE CARRIER HAD BUDGETED \$4.6 MILLION FOR FUEL AND OIL. ALLOWING FOR INCREASES SINCE THEN, THEIR FUEL BILL FOR 1974 IS NOW BUDGETED AT \$10.3 MILLION, WITH NO PROSPECTS OF COVERING THIS COST EXCEPT THROUGH THE PROPOSED SURCHARGE (OR A SUBSIDY INCREASE). BA IS OF THE OPINION THAT THE IGS PASSENGER MARKET AT THIS TIME IS RELATIVELY INELASTIC AND THAT THE 10.4 PERCENT SURCHARGE CAN BE ABSORBED WITHOUT A SIGNIFICANT DROP IN TRAFFIC.

3. INITIAL BRITISH RESPONSE TO A DISCUSSION OF ALTERNATIVE APPROACHES WAS TO SUGGEST THAT COVERAGE OF INCREASED FUEL COSTS WOULD OTHERWISE REQUIRE EITHER AN INCREASED FRG PASSENGER SUBSIDY OR SOME PLAN BY WHICH FRG COULD MAKE AVIATION FUEL AVAILABLE TO THE IGS CARRIERS AT GREATLY REDUCED COST. UK CIVIL AVIATION OFFICIAL POINTED OUT THAT EVEN IF THE FRG WERE WILLING TO ABSORB IGS LANDING AND AIRPORT COSTS IN BERLIN THE AMOUNT SAVED BY THE CARRIERS WOULD NOT BE SUFFICIENT

TO COVER INCREASED FUEL COSTS. BA ANNUAL EXPENDITURES

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P R 241537Z APR 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 1969

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 06496

ARE APPROXIMATELY 5 MILLION DEUTSCHMARKS FOR LANDING
FEES AND AIRPORT COSTS AS COMPARED WITH THE \$5.7
MILLION INCREASE IN FUEL COST FOR 1974.

4. PAA DIRECTOR RUNNETTE SAID IN OUR DISCUSSIONS THAT
PAA WOULD HAVE NO OBJECTION TO COVERING ADDITIONAL FUEL
COSTS THROUGH AN FRG SUBSIDY OF ONE KIND OR ANOTHER
INSTEAD OF A FARE INCREASE, BUT HE HAD NOTHING FURTHER
TO OFFER IN THE WAY OF AN ALTERNATIVE SOLUTION.
RUNNETTE SUPPORTED THE IDEA OF CALLING THE PROPOSED
INCREASE A "FUEL SURCHARGE", NOTING THAT THE GERMAN
PUBLIC IS BY NOW ACCUSTOMED TO THE FACT OF SOARING FUEL
PRICES.

5. COMMENT: EMBASSY IS LOOKING FORWARD TO RECEIVING
THE ADDITIONAL INFORMATION ON PAN AM'S FUEL SITUATION.
UNFORTUNATELY, OUR DISCUSSIONS WITH CAA'S AND CARRIERS
HAVE NOT REVEALED ANY PRACTICAL RESOLUTION TO THE
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INCREASED FUEL COSTS OTHER THAN A FUEL SURCHARGE OR AN
INCREASE IN FRG SUBSIDIZATION OF THE IGS, WHICH COULD
BE ACCOMPLISHED IN SEVERAL WAYS. AS THE DEPARTMENT
INSTRUCTED, WE HAVE NOT YET DISCUSSED THE PROBLEM WITH
FRG OFFICIALS. HOWEVER, FROM THEIR REMARKS AT THE TIME
OF THE FEBRUARY FARE INCREASE AND TALKS ON FEES AND
RENTALS AT BERLIN AIRPORTS (SEPTEL), IT IS OUR IMPRES-
SION THAT THEY WISH TO LIMIT ALL SUBSIDIZATION OF THE
IGS TO THE EXISTING PASSENGER SUBSIDY. IN OTHER
RESPECTS, THEY SEEM PREPARED TO PASS COSTS ALONG TO
THE PASSENGER, AND WE BELIEVE THE FRG MAY PREFER A FUEL

"SURCHARGE" AS AGAINST INCREASED SUBSIDIES.

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